

# COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2014

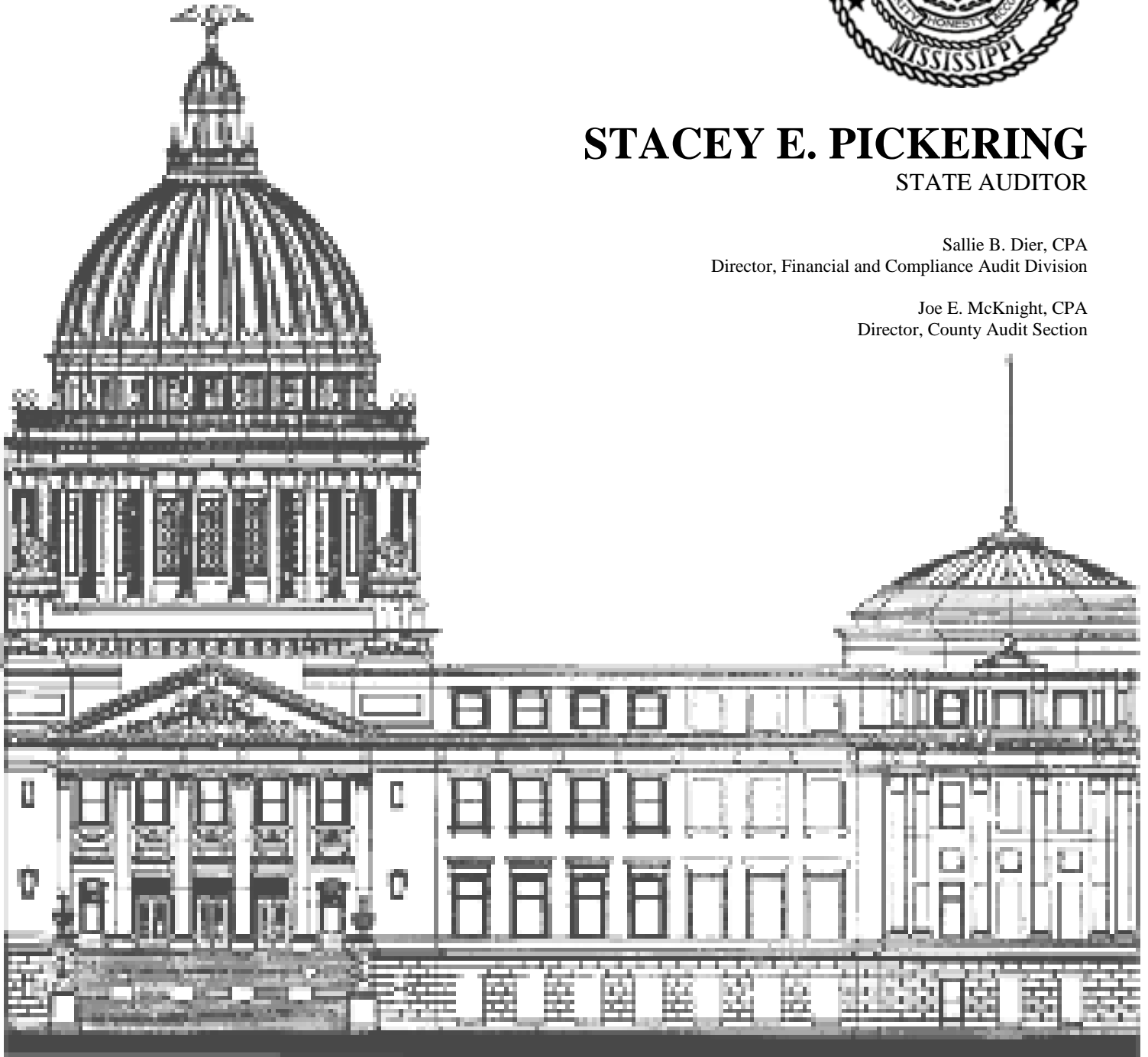


## STACEY E. PICKERING

STATE AUDITOR

Sallie B. Dier, CPA  
Director, Financial and Compliance Audit Division

Joe E. McKnight, CPA  
Director, County Audit Section



A Report from the County Audit Section

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

April 21, 2016

Members of the Board of Supervisors  
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2014 financial and compliance audit report for Covington County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Covington County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Covington County. If I or this office can be of any further assistance, please contact me or Joe E. McKnight of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", written in a cursive style.

Stacey E. Pickering  
State Auditor



COVINGTON COUNTY

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COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Covington County, Mississippi, (the County) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units**

The financial statements do not include financial data for the County's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

## **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation of Operating Costs of Solid Waste is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Reconciliation of Operating Costs of Solid Waste is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016, on our consideration of Covington County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covington County, Mississippi's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Joe E. McKnight". The signature is fluid and cursive, with the first name "Joe" and last name "McKnight" clearly legible.

JOE E. MCKNIGHT, CPA  
Director, County Audit Section

April 20, 2016

COVINGTON COUNTY

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## COVINGTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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# ***COVINGTON COUNTY, MISSISSIPPI***

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **UNAUDITED**

#### ***INTRODUCTION***

The discussion and analysis of Covington County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2014. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Covington County is located on U. S. Highway 84 and U. S. Highway 49. The population, according to the 2010 census, is 19,568. The poultry industry, timber industry, other agriculture activities, public storage facilities and a thriving medical community drive the local economic base.

#### ***FINANCIAL HIGHLIGHTS***

Covington County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Covington County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has increased 2.75 mills over the last three years. This does not include the school taxes. The levy was increased in order to help cover the lease purchase cost of the new jail being constructed.

Total net position increased by \$1,435,768, which represents a 2% increase from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$124,210 which represents a .82% increase from the prior fiscal year. The County's ending cash balance decreased by \$2,811,445, which represents a 14.70% decrease from the prior fiscal year.

# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

The County had \$11,816,260 in total revenues. Property tax revenues account for \$7,197,652 or 61% of total revenues. Operating grants, capital grants, and contributions account for \$2,430,208 or 21% of total revenues.

The County had \$10,140,198 in total expenditures, which represents an increase of \$432,619 or a 4.27% increase from the prior fiscal year. Expenses in the amount of \$3,232,935 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues of \$8,583,325.

Among major funds, the General Fund had \$6,002,424 in revenues and other financing sources and \$8,720,072 in expenditures and other financing uses. The General Fund's fund balance decreased \$2,717,648 over the prior year.

Among major funds, the State Aid Road Fund had \$1,589,048 in revenues and \$1,589,048 in expenditures.

Capital assets, net of accumulated depreciation, increased by \$3,999,348. The difference was due to the addition of construction in progress associated with the construction of the new jail along with land, infrastructure, mobile equipment, and furniture and equipment.

Long-term debt had a net decrease of \$214,981. The difference was due to note payments.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

**Figure 1 – Required Components of the County's Annual Report**

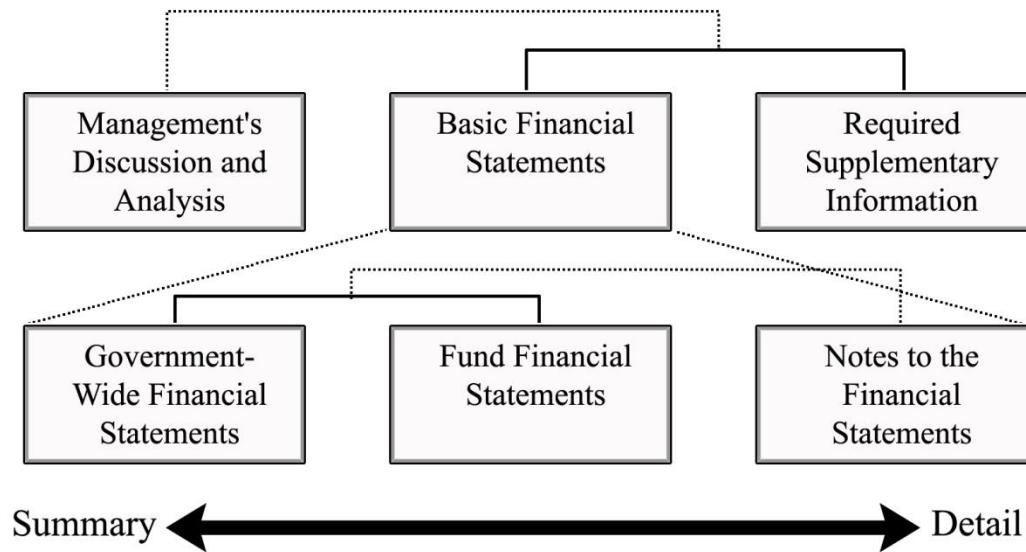


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of a County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

# **COVINGTON COUNTY, MISSISSIPPI**

## **UNAUDITED**

**Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements**

	<b>Government -Wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire County government (except fiduciary funds) and component units	All activities of the County that are not business-type or fiduciary in nature		The County is the trustee or agent for someone else’s resources
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets &amp; liabilities</li> </ul>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term	All assets and liabilities, both short and long term
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net position** presents information on all County assets, liabilities, and deferred inflows of resources, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development; and interest on long-term debt. Covington County does not have any business-type activities.

Component units are not included in our basic financial statements, they consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component units that are not included are as follows:

- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System
- Southeast Covington Fire District

The Government-wide Financial Statements can be found on pages 25 and 26 of this report.

# COVINGTON COUNTY, MISSISSIPPI

## UNAUDITED

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 28 and 30 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 27 and 29 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 31 of this report.

# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 33 through 45 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and the State Aid Road Fund. This required supplementary information can be found on pages 49 and 50 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2014.

### ***GOVERNMENT-WIDE FINANCIAL***

**Net Position** – Net position may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets exceeded liabilities and deferred inflows of resources by \$63,193,615 as of September 30, 2014.

By far, the largest portion of the County's net position (76%) reflects its investment in capital assets (e.g. roads, bridges, land, construction in progress, buildings, mobile equipment, furniture & equipment, and leased property under capital lease) less related outstanding debt used to acquire such assets. The County uses these capital assets to provide services to its citizens.

The County's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

# **COVINGTON COUNTY, MISSISSIPPI**

## **UNAUDITED**

The following table presents a summary of the County's net position for the fiscal year ended September 30, 2014, as compared to fiscal year ended September 30, 2013.

	<b>09/30/14</b>	<b>09/30/13</b>
	<b>Governmental</b>	<b>Governmental</b>
	<b>Activities</b>	<b>Activities</b>
<b>Assets:</b>		
Current Assets	\$ 23,992,552	\$ 26,570,708
Capital Assets, Net	51,479,205	47,479,857
Total Assets	<u>75,471,757</u>	<u>74,050,565</u>
<b>Liabilities:</b>		
Current Liabilities	825,851	1,035,397
Long-Term Debt Outstanding	4,156,240	4,371,221
Total Liabilities	<u>4,982,091</u>	<u>5,406,618</u>
<b>Deferred Inflows:</b>	<u>7,296,051</u>	<u>6,886,100</u>
	<u>7,296,051</u>	<u>6,886,100</u>
<b>Net Position:</b>		
Invested in Capital Assets, Net of Related Debt	47,933,859	46,622,301
Restricted	3,927,389	3,758,807
Unrestricted	11,332,367	11,376,739
Total Net Position	<u>\$ 63,193,615</u>	<u>\$ 61,757,847</u>

The following is a significant current year transaction that has had an impact on the Statement of Net Position.

- Capital assets had additions of \$4,908,685 from additions in land, construction in progress for the jail project, mobile equipment, and furniture and equipment.



# **COVINGTON COUNTY, MISSISSIPPI**

## **UNAUDITED**

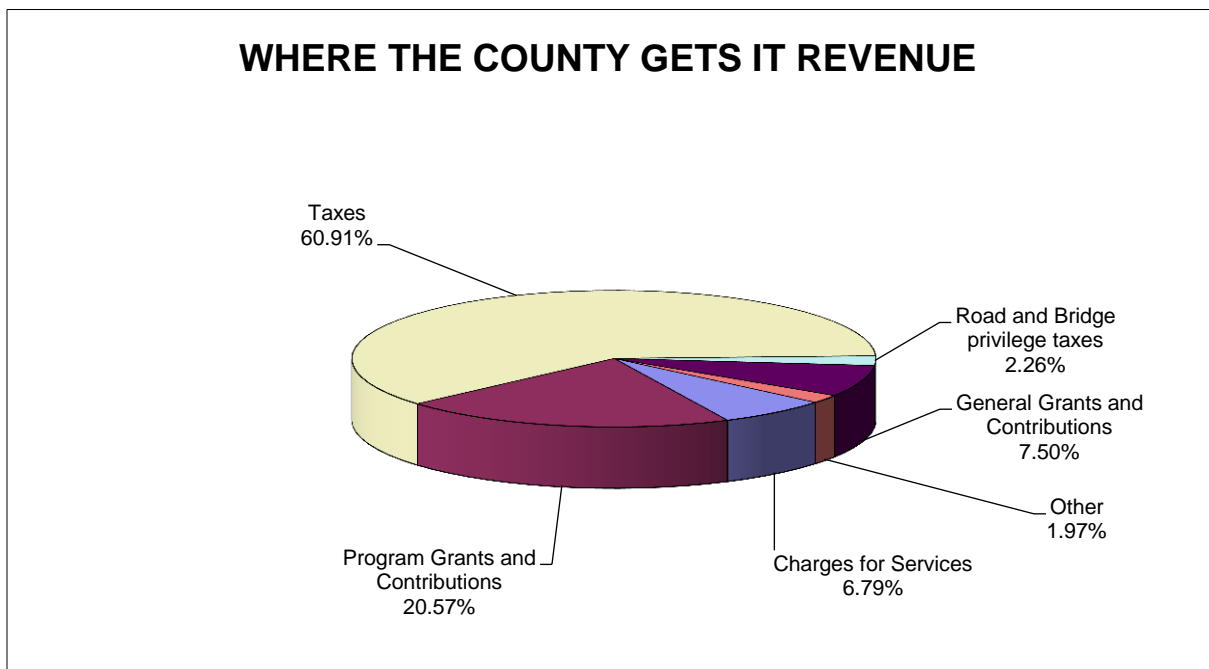
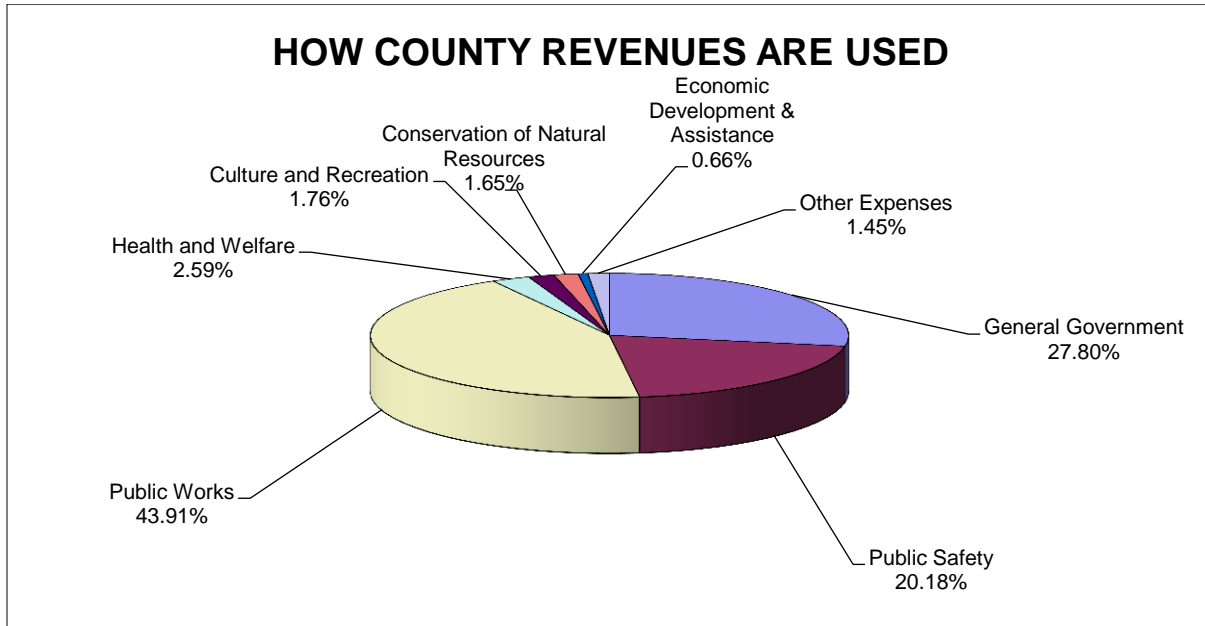
**Changes in Net Position**—Covington County’s total revenues for the fiscal year ended September 30, 2014 were \$11,816,260. The total cost for all services provided was \$10,140,198. The increase in net position was \$1,676,062. The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2014, as compared to fiscal year ended September 30, 2013.

	<b>09/30/14</b>	<b>09/30/13</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 802,727	\$ 852,365
Grants and Contributions	2,430,208	1,145,864
General Revenues:		
Taxes	7,197,652	6,983,797
Road and Bridge privilege taxes	267,109	264,330
Grants and Contributions	885,648	872,034
Other	232,916	237,329
Total Revenues	<u>11,816,260</u>	<u>10,355,719</u>
<b>Expenses:</b>		
General Government	2,819,454	2,811,390
Public Safety	2,046,656	2,341,257
Public Works	4,453,033	3,884,376
Health and Welfare	262,649	290,999
Culture and Recreation	178,331	159,554
Conservation of Natural Resources	167,254	113,828
Economic Development & Assistance	65,665	58,665
Other Expenses	147,156	47,510
Total Expenses	<u>10,140,198</u>	<u>9,707,579</u>
Increase (Decrease) in Net Position	<u>\$ 1,676,062</u>	<u>\$ 648,140</u>

# COVINGTON COUNTY, MISSISSIPPI

## UNAUDITED

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2014.



# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

**Governmental Activities** – The following table presents the cost of major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development and Assistance, and Interest on Long-term Debt.

	<b>Total Costs</b>	<b>Net Costs</b>
General Government	\$ 2,819,454	\$ 2,290,592
Public Safety	2,046,656	1,519,143
Public Works	4,453,033	2,277,602
Health and Welfare	262,649	261,520
Culture and Recreation	178,331	178,331
Conservation of Natural Resources	167,254	167,254
Economic Development and Assistance	65,665	65,665
Interest on Long-Term Debt	147,156	147,156

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Covington County's taxpayers by each of these functions.

## ***FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS***

**Governmental funds** – At the close of the fiscal year, Covington County's governmental funds reported a combined fund balance of \$15,785,866, a decrease of \$2,554,570. The decrease is 13.9% of the total fund balance.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year is \$2,717,648. This decrease is due to an increase in expenses for Public Safety.

## ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, Covington County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.

# **COVINGTON COUNTY, MISSISSIPPI**

## **UNAUDITED**

- The largest increase in amendments in the General Fund and State aid Road Fund budgets were to the Public Safety Department and Public Works Department respectively. Budgeted expenditures were increased (decreased) as better estimates became available.
- With these adjustments actual disbursements were below final budget amounts by \$0 for the General Fund and \$0 for the State Aid Road Fund.

Schedules showing the original and final budget amounts compared to the County's actual financial activity for the General Fund and State Aid Road Fund are provided in this report as required supplementary information.

### ***CAPITAL ASSETS AND DEBT ADMINISTRATION***

**Capital Assets** – As of September 30, 2014, Covington County's total gross capital assets were \$145,049,436. This includes roads, bridges, other infrastructure, land, construction in progress, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$4,833,276.

Total accumulated depreciation as of September 30, 2014 was \$93,570,231, including \$882,496 of depreciation expense for the year. The balance in total net capital assets was \$51,479,205 at year-end.

See the schedules below for additional information on Covington County's capital assets:

#### **Capital Asset Values**

<b>Asset Classification</b>	<b>Balance 10/1/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2014</b>
Land	\$ 321,531	14,040	-	-	335,571
Construction in Progress	546,619	3,764,643			4,311,262
Infrastructure	122,587,242	726,141			123,313,383
Buildings	5,545,332				5,545,332
Mobile Equipment	8,734,132	253,269	75,409	(133,015)	8,778,977
Furniture and Equipment	2,136,865	150,592		133,015	2,420,472
Leased Property under Capital Leases	344,439				344,439
<b>TOTALS</b>	<b>\$ 140,216,160</b>	<b>4,908,685</b>	<b>75,409</b>	<b>-</b>	<b>145,049,436</b>

# **COVINGTON COUNTY, MISSISSIPPI**

## **UNAUDITED**

### **Capital Asset Accumulated Depreciation**

<b>Asset Classification</b>	<b>Balance 10/1/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2014</b>
Infrastructure	\$ 82,634,376	223,726	-	-	82,858,102
Buildings	1,880,426	86,641			1,967,067
Mobile Equipment	6,237,355	448,886	48,568	(95,798)	6,541,875
Furniture and Equipment	1,874,758	92,243		95,798	2,062,799
Leased Property under Capital Leases	109,388	31,000			140,388
	<u>\$ 92,736,303</u>	<u>882,496</u>	<u>48,568</u>	<u>-</u>	<u>93,570,231</u>

**Debt Administration** – At September 30, 2014, Covington County had \$4,156,240 in long-term debt outstanding. The debt outstanding as of September 30, 2014 is limited obligation bonds and capital leases. Of this debt, \$308,168 was due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2014, Covington County had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2014:

	<b>Balance 10/1/2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 9/30/2014</b>	<b>Due Within One Year</b>
Limited Obligation Bonds	\$ 4,140,000		155,000	3,985,000	150,000
Capital Leases	218,346		47,106	171,240	158,168
Other Loans	12,875		12,875	-	
Total	<u>\$ 4,371,221</u>	<u>-</u>	<u>214,981</u>	<u>4,156,240</u>	<u>308,168</u>

Additional information on Covington County's long-term debt can be found in note 9 on page 42 through 43 of this report.

### ***CURRENT AND FUTURE ITEMS OF IMPACT***

For the year 2014-2015, Covington County, MS has completed the construction of the new jail, and the jail is currently in operation. The tax levy for the County will not increase for the current year.

The budget for the next fiscal year reflected an increase of \$680,301 or 6% in revenues and a decrease of \$2,476,825 or 14% in expenses. This is expected to increase the County's net position.

# ***COVINGTON COUNTY, MISSISSIPPI***

## **UNAUDITED**

Covington County has an unemployment rate of 6.9% versus 8.1% a year ago. This compares favorably with the state average rate of 8.0%.

### ***CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Covington County Comptroller's/Chancery Clerk's office at 101 South Elm, Collins, Mississippi 39428.

COVINGTON COUNTY

FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY  
Statement of Net Position  
September 30, 2014

Exhibit 1

	Primary Government
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Cash	\$ 15,664,665
Restricted cash	652,675
Property tax receivable	7,296,051
Fines receivable (net of allowance for uncollectibles of \$521,234)	129,947
Intergovernmental receivables	246,094
Other receivables	3,120
Capital assets:	
Land and construction in progress	4,646,833
Other capital assets, net	46,832,372
Total Assets	<u>75,471,757</u>
LIABILITIES	
Claims payable	546,964
Intergovernmental payables	171,292
Accrued interest payable	45,163
Other payables	62,432
Long-term liabilities	
Due within one year:	
Capital debt	308,168
Due in more than one year:	
Capital debt	3,848,072
Total Liabilities	<u>4,982,091</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax for future reporting period	7,296,051
Total deferred inflows of resources	<u>7,296,051</u>
NET POSITION	
Net investment in capital assets	47,933,859
Restricted for:	
Expendable:	
General government	69,492
Public safety	1,738,729
Public works	2,095,209
Culture and recreation	3,716
Economic development and assistance	159
Unemployment compensation	20,084
Unrestricted	11,332,367
Total Net Position	<u>\$ 63,193,615</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY  
Statement of Activities  
For the Year Ended September 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,819,454	507,044	21,818		(2,290,592)
Public safety	2,046,656	268,915	228,162	30,436	(1,519,143)
Public works	4,453,033	26,768	582,265	1,566,398	(2,277,602)
Health and welfare	262,649		1,129		(261,520)
Culture and recreation	178,331				(178,331)
Conservation of natural resources	167,254				(167,254)
Economic development and assistance	65,665				(65,665)
Interest on long-term debt	147,156				(147,156)
Total Governmental Activities	\$ 10,140,198	802,727	833,374	1,596,834	(6,907,263)
General revenues:					
Property taxes				\$ 7,197,652	
Road & bridge privilege taxes				267,109	
Grants and contributions not restricted to specific programs				885,648	
Unrestricted interest income				79,983	
Miscellaneous				152,933	
Total General Revenues				8,583,325	
Changes in Net Position					1,676,062
Net Position - Beginning, as previously reported					61,757,847
Prior period adjustment					(240,294)
Net Position - Beginning, as restated					61,517,553
Net Position - Ending				\$	63,193,615

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2014

Exhibit 3

	Major Funds			
	General	State Aid	Other	Total
	Fund	Road	Governmental	Governmental
	Fund	Fund	Funds	Funds
<b>ASSETS</b>				
Cash	\$ 11,533,959	39	4,130,667	15,664,665
Restricted cash	652,675			652,675
Property tax receivable	4,367,742		2,928,309	7,296,051
Fines receivable (net of allowance for uncollectibles of \$521,234)	129,947			129,947
Intergovernmental receivables	195,136	11,213	39,745	246,094
Other receivables	2,810		310	3,120
Due from other funds	2,454		53,129	55,583
Total Assets	\$ 16,884,723	11,252	7,152,160	24,048,135
<b>LIABILITIES</b>				
Liabilities:				
Claims payable	\$ 236,200	11,213	299,551	546,964
Intergovernmental payables	165,130			165,130
Due to other funds	59,291		2,454	61,745
Other payables	62,432			62,432
Total Liabilities	523,053	11,213	302,005	836,271
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenue - property taxes	4,367,742		2,928,309	7,296,051
Unavailable revenue - fines	129,947			129,947
Total deferred inflows of resources	4,497,689	0	2,928,309	7,425,998
<b>Fund balances:</b>				
Restricted for:				
General government			69,492	69,492
Public safety	610,894		1,738,729	2,349,623
Public works		39	2,095,170	2,095,209
Culture and recreation			3,716	3,716
Economic development and assistance			159	159
Unemployment compensation			20,084	20,084
Assigned to:				
General government	598			598
Public safety	192,928			192,928
Culture and recreation	99,086			99,086
Unassigned	10,960,475		(5,504)	10,954,971
Total Fund Balances	11,863,981	39	3,921,846	15,785,866
Total Liabilities and Fund Balances	\$ 16,884,723	11,252	7,152,160	24,048,135

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 3-1Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
September 30, 2014

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 15,785,866
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$93,570,231.	51,479,205
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	129,947
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(4,156,240)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(45,163)</u>
Total Net Position - Governmental Activities	\$ <u><u>63,193,615</u></u>

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2014

	Major Funds		Other	Total
	General	State Aid	Governmental	Governmental
	Fund	Road	Funds	Funds
		Fund		
REVENUES				
Property taxes	\$ 4,321,533		2,876,119	7,197,652
Road and bridge privilege taxes			267,109	267,109
Licenses, commissions and other revenue	203,128		16,137	219,265
Fines and forfeitures	355,949			355,949
Intergovernmental revenues	980,502	1,589,048	746,306	3,315,856
Charges for services	2,943		202,595	205,538
Interest income	74,642		5,341	79,983
Miscellaneous revenues	34,203		114,476	148,679
Total Revenues	5,972,900	1,589,048	4,228,083	11,790,031
EXPENDITURES				
Current:				
General government	2,514,207		304,576	2,818,783
Public safety	4,745,894		411,409	5,157,303
Public works	56,736	1,589,048	3,786,712	5,432,496
Health and welfare	227,083			227,083
Culture and recreation	53,934		116,550	170,484
Conservation of natural resources	167,140			167,140
Economic development and assistance	45,942			45,942
Debt service:				
Principal	155,000		59,981	214,981
Interest	134,891		6,593	141,484
Total Expenditures	8,100,827	1,589,048	4,685,821	14,375,696
Excess of Revenues over (under) Expenditures	(2,127,927)	0	(457,738)	(2,585,665)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets			18,000	18,000
Compensation for loss of capital assets			13,095	13,095
Transfers in	29,524		619,245	648,769
Transfers out	(619,245)		(29,524)	(648,769)
Total Other Financing Sources and Uses	(589,721)	0	620,816	31,095
Net Changes in Fund Balances	(2,717,648)	0	163,078	(2,554,570)
Fund Balances - Beginning	14,581,629	39	3,758,768	18,340,436
Fund Balances - Ending	\$ 11,863,981	39	3,921,846	15,785,866

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2014

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (2,554,570)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$4,908,685 exceeded depreciation of \$882,496 in the current period.

4,026,189

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net gain of \$4,254 and the proceeds from the sale of \$18,000 and compensation for loss of capital assets of \$13,095 in the current period.

(26,841)

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.

21,975

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount of debt repayments of \$214,981.

214,981

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:

Increase in accrued interest payable

(5,672)

Change in Net Position of Governmental Activities

\$ 1,676,062

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2014

Exhibit 5

		Agency Funds
ASSETS		
Cash	\$	458,423
Due from other funds		6,162
Total Assets	\$	<u>464,585</u>
LIABILITIES		
Amounts held in custody for others	\$	458,423
Intergovernmental payables		6,162
Total Liabilities	\$	<u>464,585</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

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## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Covington County, Mississippi (the County) is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Covington County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of all of the County's component units necessary for reporting in accordance with accounting principles generally accepted in the United States of America.

- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System
- Southeast Covington Fire District

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the County legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

##### Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Position presents the financial condition of the governmental activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

function is self-financing or draws from the general revenues of the County.

#### Fund Financial Statements:

Fund financial statements of the County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

#### C. Measurement Focus and Basis of Accounting.

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

State Aid Road Fund - This fund is used to account for monies from specified revenue sources that are restricted for road construction and maintenance.

Additionally, the County reports the following fund types:

#### GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

#### FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Covington County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

# COVINGTON COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2014

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

\* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

### I. Deferred Outflows/Inflows of Resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. However, the County had no deferred outflows of resources at the end of the fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

### J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

#### K. Equity Classifications.

##### Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

##### Net Position Flow Assumption:

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County’s general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County’s general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

##### Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Assigned fund balance* includes amounts that are constrained by the County’s intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors pursuant to authorization established by the board minutes.

*Unassigned fund balance* is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

#### Fund Balance Flow Assumption:

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

#### L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

#### M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

#### N. Changes in Accounting Standards

The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The provisions of these standards have been incorporated into the financial statements and notes.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2014

(2) Prior Period Adjustment.

A summary of the significant fund equity adjustment is as follows:

Exhibit 2 - Statement of Activities - Governmental Activities.

Explanation	Amount
Implementation of GASB 65, <i>Items Previously Reported as Assets and Liabilities</i>	\$ <u>(240,294)</u>

(3) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2014, was \$16,775,763, and the bank balance was \$17,703,606. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

**Restricted Cash.**

As approved by Section 91-13-8, Miss. Code Ann. (1972), the cash balance amount of \$652,675 is managed through a trust indenture between the County and the trustee related to the construction and debt payments of the new Covington County jail project. Accordingly, this cash is classified as restricted on the financial statements.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2014:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 2,454
Other Governmental Funds	General Fund	53,129
Agency Funds	General Fund	<u>6,162</u>
Total		\$ <u>61,745</u>

The receivables represent the tax revenue collected in September 2014, but not settled until October, 2014. All interfund balances are expected to be repaid within one year from the date of the financial statements.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2014

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 29,524
Other Governmental Funds	General Fund	<u>619,245</u>
Total		\$ <u><u>648,769</u></u>

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2014, consisted of the following:

<u>Description</u>	<u>Amount</u>
<b>Governmental Activities:</b>	
Legislative tax credit	\$ 123,136
MDOT reimbursement	72,000
State Aid Road reimbursement	11,213
Emergency management performance grants	22,702
DUI grant	<u>17,043</u>
Total Governmental Activities	\$ <u><u>246,094</u></u>

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2014:

**Governmental activities:**

	<u>Balance</u> <u>Oct. 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments *</u>	<u>Balance</u> <u>Sept. 30, 2014</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 321,531	14,040			335,571
Construction in progress	<u>546,619</u>	<u>3,764,643</u>			<u>4,311,262</u>
Total non-depreciable capital assets	<u>868,150</u>	<u>3,778,683</u>	<u>0</u>	<u>0</u>	<u>4,646,833</u>
<u>Depreciable capital assets:</u>					
Infrastructure	122,587,242	726,141			123,313,383
Buildings	5,545,332				5,545,332
Mobile equipment	8,734,132	253,269	75,409	(133,015)	8,778,977
Furniture and equipment	2,136,865	150,592		133,015	2,420,472
Leased property under capital leases	<u>344,439</u>				<u>344,439</u>
Total depreciable capital assets	<u>139,348,010</u>	<u>1,130,002</u>	<u>75,409</u>	<u>0</u>	<u>140,402,603</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	82,634,376	223,726			82,858,102
Buildings	1,880,426	86,641			1,967,067
Mobile equipment	6,237,355	448,886	48,568	(95,798)	6,541,875
Furniture and equipment	1,874,758	92,243		95,798	2,062,799
Leased property under capital leases	<u>109,388</u>	<u>31,000</u>			<u>140,388</u>



COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2014

	Balance Oct. 1, 2013	Additions	Deletions	Adjustments *	Balance Sept. 30, 2014
Total accumulated depreciation	92,736,303	882,496	48,568	0	93,570,231
Total depreciable capital assets, net	46,611,707	247,506	26,841	0	46,832,372
Governmental activities capital assets, net	\$ 47,479,857	4,026,189	26,841	0	51,479,205

\*Adjustments are to reclassify mobile equipment to furniture and equipment.

Depreciation expense was charged to the following functions:

	Amount
<b>Governmental Activities:</b>	
General government	\$ 27,501
Public safety	169,735
Public works	616,370
Health and welfare	35,566
Culture and recreation	7,847
Conservation of natural resources	5,754
Economic development and assistance	19,723
Total governmental activities depreciation expense	\$ 882,496

Commitments with respect to unfinished capital projects at September 30, 2014, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
New jail	\$ 610,547	March, 2015
Pickering Rogers Road – STPBR 0016 28(B)	461,814	October, 2015
Cagle Road – LSBP 16 21	449,777	October, 2015
Hopewell Road – STPBR 0262 8(B)	225,887	October, 2015

(7) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2014, to January 1, 2015. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2014

(8) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2014:

Classes of Property		Governmental Activities
Mobile equipment	\$	344,439
Less: Accumulated depreciation		<u>140,388</u>
Leased Property Under Capital Leases	\$	<u><u>204,051</u></u>

The following is a schedule by years of the total payments due as of September 30, 2014:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2015	\$ 158,168	4,270
2016	<u>13,072</u>	<u>95</u>
Total	\$ <u><u>171,240</u></u>	<u><u>4,365</u></u>

(9) Long-term Debt.

Debt outstanding as of September 30, 2014, consisted of the following:

Description and Purpose	Amount	Interest Rate	Final Maturity Date
<b>Governmental Activities:</b>			
A. Limited Obligation Bonds:			
Certificates of Participation, Jail Project	\$ <u><u>3,985,000</u></u>	3.40%	06/2033
B. Capital Leases:			
District 5 Volvo G930 motor grader	\$ 124,043	3.28%	06/2015
District 4 New Holland tractor with boom mower	22,899	3.12%	01/2016
District 5 New Holland tractor with boom mower	<u>24,298</u>	3.12%	01/2016
Total Capital Leases	\$ <u><u>171,240</u></u>		

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2014

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

**Governmental Activities:**

Year Ending September 30	Limited Obligation Bonds	
	Principal	Interest
2015	\$ 150,000	135,490
2016	155,000	130,390
2017	165,000	125,120
2018	170,000	119,510
2019	175,000	113,730
2020 – 2024	965,000	475,490
2025 – 2029	1,145,000	299,540
2030 – 2034	1,060,000	91,800
Total	\$ 3,985,000	1,491,070

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2014, the County had no outstanding debt limited by the legal debt margin.

Certificates of Participation – In accordance with Section 31-8-1 et seq. Miss. Code Ann. (1972), the County issued Certificates of Participation and transferred the proceeds to the Southern Mississippi Investment Co., Inc. (Corporation). The funds are to be used to construct a new Covington County jail facility. At completion, the Corporation will enter into a twenty year lease with the County. The County is obligated to pay the Corporation rent equal to the principal and interest on the debt. At the completion of the lease, the County will assume ownership of the facility. This obligation is not a general obligation and does not constitute a pledge of full faith and credit of the County.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2014:

	Balance Oct. 1, 2013	Additions	Reductions	Adjustments	Balance Sept. 30, 2014	Amount due within one year
<b>Governmental Activities:</b>						
Limited obligation bonds	\$ 4,140,000		155,000		3,985,000	150,000
Capital leases	218,346		47,106		171,240	158,168
Other loans	12,875		12,875			
Total	\$ 4,371,221	0	214,981	0	4,156,240	308,168

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

#### (10) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

Hospital Revenue Bond Contingencies - The County issues revenue bonds to provide funds for constructing and improving capital facilities of the Covington County Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the County remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2014, is \$6,000,000.

#### (11) Joint Venture.

The County participates in the following joint venture:

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of twelve members to the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Pine Belt Regional Solid Waste Authority can be obtained from P.O. Box 1898, Hattiesburg, MS 39403.

#### (12) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$20,000 for support of the district in fiscal year 2014.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Covington County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$35,000 for support of the entity in fiscal year 2014.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Covington County Board of Supervisors appoints two of the 20 members of the college board of trustees. The County appropriated \$435,825 for maintenance and support of the college in the fiscal year 2014.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Covington County Board of Supervisors appoints one of the nine members of the board of directors. The County appropriated \$72,500 for support of the district in fiscal year 2014.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2014

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Covington County Board of Supervisors appoints one of the 24 members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. The County appropriated \$10,000 for support of the district in fiscal year 2014.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

(13) Defined Benefit Pension Plan.

Plan Description. Covington County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2014, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2014, 2013 and 2012 were \$454,375, \$408,511 and \$372,511, respectively, equal to the required contributions for each year.

(14) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Covington County evaluated the activity of the County through April 20, 2016, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2014, the County issued the following debt obligation:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
09/03/2015	2.00-3.75%	\$ 5,700,000	GO Refunding Bonds	Hospital Revenues

COVINGTON COUNTY

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COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
Budgetary Comparison Schedule -  
Budget and Actual (Non-GAAP Basis)  
General Fund  
For the Year Ended September 30, 2014  
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,121,800	4,317,973	4,317,973	
Licenses, commissions and other revenue	330,000	272,219	272,219	
Fines and forfeitures	280,000	294,748	294,748	
Intergovernmental revenues	891,500	870,062	870,062	
Charges for services	500	4,700	4,700	
Interest income	34,255	141,405	141,405	
Miscellaneous revenues	250,300	119,067	119,067	
Total Revenues	<u>5,908,355</u>	<u>6,020,174</u>	<u>6,020,174</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	3,146,745	2,484,077	2,484,077	
Public safety	6,236,300	4,851,119	4,851,119	
Public works	50,000	131,340	131,340	
Health and welfare	262,220	232,768	232,768	
Culture and recreation	41,561	52,915	52,915	
Conservation of natural resources	114,018	166,334	166,334	
Economic development and assistance	80,000	45,942	45,942	
Total Expenditures	<u>9,930,844</u>	<u>7,964,495</u>	<u>7,964,495</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(4,022,489)</u>	<u>(1,944,321)</u>	<u>(1,944,321)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		29,524	29,524	
Transfers out	<u>(2,475,000)</u>	<u>(619,245)</u>	<u>(619,245)</u>	
Total Other Financing Sources and Uses	<u>(2,475,000)</u>	<u>(589,721)</u>	<u>(589,721)</u>	<u>0</u>
Net Change in Fund Balance	<u>(6,497,489)</u>	<u>(2,534,042)</u>	<u>(2,534,042)</u>	<u>0</u>
Fund Balances - Beginning	<u>14,892,566</u>	<u>14,747,047</u>	<u>14,747,047</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 8,395,077</u>	<u>12,213,005</u>	<u>12,213,005</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

COVINGTON COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 State Aid Fund  
 For the Year Ended September 30, 2014  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 100,000	240,605	240,605	
Total Revenues	<u>100,000</u>	<u>240,605</u>	<u>240,605</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	100,000	257,803	257,803	
Total Expenditures	<u>100,000</u>	<u>257,803</u>	<u>257,803</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(17,198)</u>	<u>(17,198)</u>	
Net Change in Fund Balance	0	(17,198)	(17,198)	0
Fund Balances - Beginning	<u>0</u>	<u>17,237</u>	<u>17,237</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>39</u>	<u>39</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

# COVINGTON COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2014 UNAUDITED

### A. Budgetary Information.

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

### B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

### C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	State Aid Road Fund
Budget (Cash Basis)	\$ (2,534,042)	(17,198)
Increase (Decrease)		
Net adjustments for revenue accruals	90,580	11,213
Net adjustments for expenditure accruals	(274,186)	5,985
GAAP Basis	\$ (2,717,648)	0

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
Reconciliation of Operating Costs of Solid Waste  
For the Year Ended September 30, 2014

Operating Expenditures, Cash Basis:

Salaries	\$	346,819
Expendable Commodities:		
Gasoline and petroleum products		60,584
Repair parts		3,057
Maintenance		7,615
Contractual Services		159,564
Supplies		<u>661</u>

Solid Waste Cash Basis Operating Expenditures	578,300
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Full Cost Expenses:

Indirect administrative costs	3,630
Depreciation on equipment	<u>41,358</u>

Solid Waste Full Cost Operating Expenses	\$ <u><u>623,288</u></u>
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COVINGTON COUNTY

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## COVINGTON COUNTY

## OTHER INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
Schedule of Surety Bonds for County Officials  
For the Year Ended September 30, 2014  
UNAUDITED

Name	Position	Company	Bond
Mason Stringer	Supervisor District 1	Western Surety Company	\$100,000
John Holified	Supervisor District 2	FCCI Insurance Company	\$100,000
Jimmy D. White	Supervisor District 3	Western Surety Company	\$100,000
Guy Cecil Easteling	Supervisor District 4	FCCI Insurance Company	\$100,000
Donnie R. Barnes	Supervisor District 5	FCCI Insurance Company	\$100,000
Jimmie Baggett	Chancery Clerk	FCCI Insurance Company	\$100,000
Jimmie Baggett	Purchase Clerk	FCCI Insurance Company	\$75,000
Pamela Mechelle Lopez	Assistant Purchase Clerk	RLI Insurance Company	\$50,000
Mamie Theresa Knight	Assistant Purchase Clerk	FCCI Insurance Company	\$50,000
Maxine W. Anderson	Receiving Clerk	Hartford Insurance Company	\$75,000
Joe Ponder	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
James Beasley	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Pamela Wade Smith	Assistant Receiving Clerk	RLI Insurance Company	\$50,000
Johnny Norris	Assistant Receiving Clerk	RLI Insurance Company	\$50,000
Sandra Brinson	Inventory Control Clerk	Zurich North American Surety	\$75,000
Joe Ponder	Constable	FCCI Insurance Company	\$50,000
Billy J. Pitts	Constable	FCCI Insurance Company	\$50,000
Melissa Duckworth	Circuit Clerk	FCCI Insurance Company	\$100,000
Stann Q. Smith	Sheriff	FCCI Insurance Company	\$100,000
John Laz Sanford	Justice Court Judge	FCCI Insurance Company	\$50,000
Bobby Wayne Mooney	Justice Court Judge	FCCI Insurance Company	\$50,000
Cassity Booker	Justice Court Clerk	FCCI Insurance Company	\$50,000
Paula Owen	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Gina Loftis	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Stephanie Ponder	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Cindy Aultman Sanford	Tax Assessor-Collector	FCCI Insurance Company	\$100,000
Dannie Jean Abercrombie	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Minnie Rankin	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Sharon Nancy Walley	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Frieda Whiddon	Deputy Tax Collector	Travelers Insurance Company	\$50,000
Shannon McRaney	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Nicole McCallum	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Jennifer Crosby	Deputy Tax Collector	FCCI Insurance Company	\$50,000

COVINGTON COUNTY

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## COVINGTON COUNTY

### SPECIAL REPORTS

COVINGTON COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors  
Covington County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 20, 2016. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Covington County, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2014-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2014-002 and 2014-003 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Covington County, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Covington County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated April 20, 2016, included within this document.

## **Covington County's Responses to Findings**

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Covington County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Joe E. Mcknight". The signature is fluid and cursive, with the first name "Joe" being the most prominent.

JOE E. MCKNIGHT, CPA  
Director, County Audit Section

April 20, 2016





**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT ACCOUNTANT'S REPORT ON CENTRAL PURCHASING SYSTEM,  
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES  
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors  
Covington County, Mississippi

We have examined Covington County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2014. The Board of Supervisors of Covington County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Covington County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2014.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

This report is intended for use in evaluating the central purchasing system and inventory control system of Covington County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Joe E. Mcknight". The signature is written in black ink and is positioned above the printed name and title.

JOE E. MCKNIGHT, CPA  
Director, County Audit Section

April 20, 2016

COVINGTON COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2014

Our test results did not identify any purchases from other than the lowest bidder.

COVINGTON COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2014

Schedule 2

Our test results did not identify any emergency purchases.

## COVINGTON COUNTY

Schedule 3Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2014

Date	Item Purchased	Amount Paid	Vendor
10/6/2014	Fingerprint/Palm scanner	\$ 19,214	AD&S, Inc.

COVINGTON COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi for the year ended September 30, 2014, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated April 20, 2016, on the financial statements of Covington County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Covington County should expire all individual's passwords on a periodic basis.

Finding

As reported in the prior three years' audit reports, a discussion of Covington County's security settings revealed user's passwords were set to never expire. Generally non-expiring passwords should be reserved only for system tasks which could require continuous service. Otherwise, all passwords should be set to expire in accordance with policy to be determined by Covington County. Expiring passwords on a periodic basis is an industry best practice.

Recommendation

We recommend that all passwords for individual user-ids to be set to expire immediately and a policy be implemented to ensure passwords are expired on a regular basis.

#### Board of Supervisors' Response

Covington County agrees with the findings of the control deficiencies and will implement procedures to correct these deficiencies.

2. Covington County should strengthen its password policy to force more complex passwords.

#### Finding

As reported in the prior three years' audit reports, Covington County presently does not require the users to create strong or complex passwords to its computer system. Password strength is a measure of the effectiveness of a password in resisting guessing and brute-force attacks. The strength of a password is a function of length, complexity, and unpredictability. Using strong passwords lowers overall risk of a security breach, but strong passwords do not replace the need for other effective security controls. The current policy in Active Directory allows a minimum of three characters and does not force the use of special characters.

#### Recommendation

Covington County should configure Active Directory to require a minimum of eight characters and require special characters to be used in the password.

#### Board of Supervisors' Response

Covington County agrees with the findings of the control deficiencies and will implement procedures to correct these deficiencies.

3. The County should perform periodic logical access reviews.

#### Finding

We noted during our review that the County does not have a formal process for removing logical access for terminated employees. We also noted that the County does not periodically review the levels of access that active users have and determine if the access is appropriate.

#### Recommendation

We recommend that the County implement a periodic review of logical access for all individual users.

#### Board of Supervisors' Response

The Covington County Board of Supervisors will comply with the recommendation of implementing a periodic review of logical access for individual users. A new IT group has been hired. We will get them to review and help in compliance.

Covington County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA  
Director, County Audit Section

April 20, 2016



COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2014

Section 1: Summary of Auditor's Results

***Financial Statements:***

1. Type of auditor's report issued:

Governmental activities	Unmodified
Aggregate discretely presented component units	Adverse
General Fund	Unmodified
State Aid Road Fund	Unmodified
Aggregate remaining fund information	Unmodified
2. Internal control over financial reporting:
  - a. Material weakness identified? Yes
  - b. Significant deficiencies identified? Yes
3. Noncompliance material to financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

- 2014-001. Financial data for County's component units should be included in the County's financial statements.

Finding

Generally accepted accounting principles require the financial data for the County's component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior seven years' audit reports, the financial statements do not include the financial data for the County's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the County's financial statements.

Board of Supervisors' Response

The Board of Supervisors recognizes the failure to include financial data of the County's component units has resulted in an adverse opinion. The cost of providing this data is not feasible, and for some of the units, financial data may not be available to the board.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2014

#### Significant Deficiency

2014-002. Covington County should implement a formal information security policy.

##### Finding

As reported in the prior three years' audit reports, Covington County has not adopted a formal Information Security Policy or Enterprise Security Plan. The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and internet protocol.

##### Recommendation

A robust set of Information Technology Policies should cover at least the following areas:

- Acceptable Use
- Portable Computing
- Change Management
- Encryption
- Security Incident Response
- Risk Management
- Backup and Recovery
- Business Continuity / Disaster Recovery

While full compliance with all facets of such a policy may be an economic challenge for the County, beginning steps to become compliant with a policy covering areas such as those listed above are necessary. We recommend that the County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by county supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

##### Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

#### Significant Deficiency

2014-003. The County should replace obsolete computer hardware and software.

##### Finding

The County is running operating systems as well as applications on some of its servers and/or personal computers (PCs) that might not be supported by vendors. Due to the lack of support, these systems could become vulnerable to hackers and malware such as viruses.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2014

#### Recommendation

We recommend that the County develop a plan to replace the operating systems, applications, and hardware where necessary that is no longer supported by vendors as soon as possible. Computers that originally included operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases.

#### Board of Supervisors' Response

The Covington County Board of Supervisors will develop a plan to replace operating systems, applications, and hardware where necessary that is no longer supported by vendors as soon as possible.